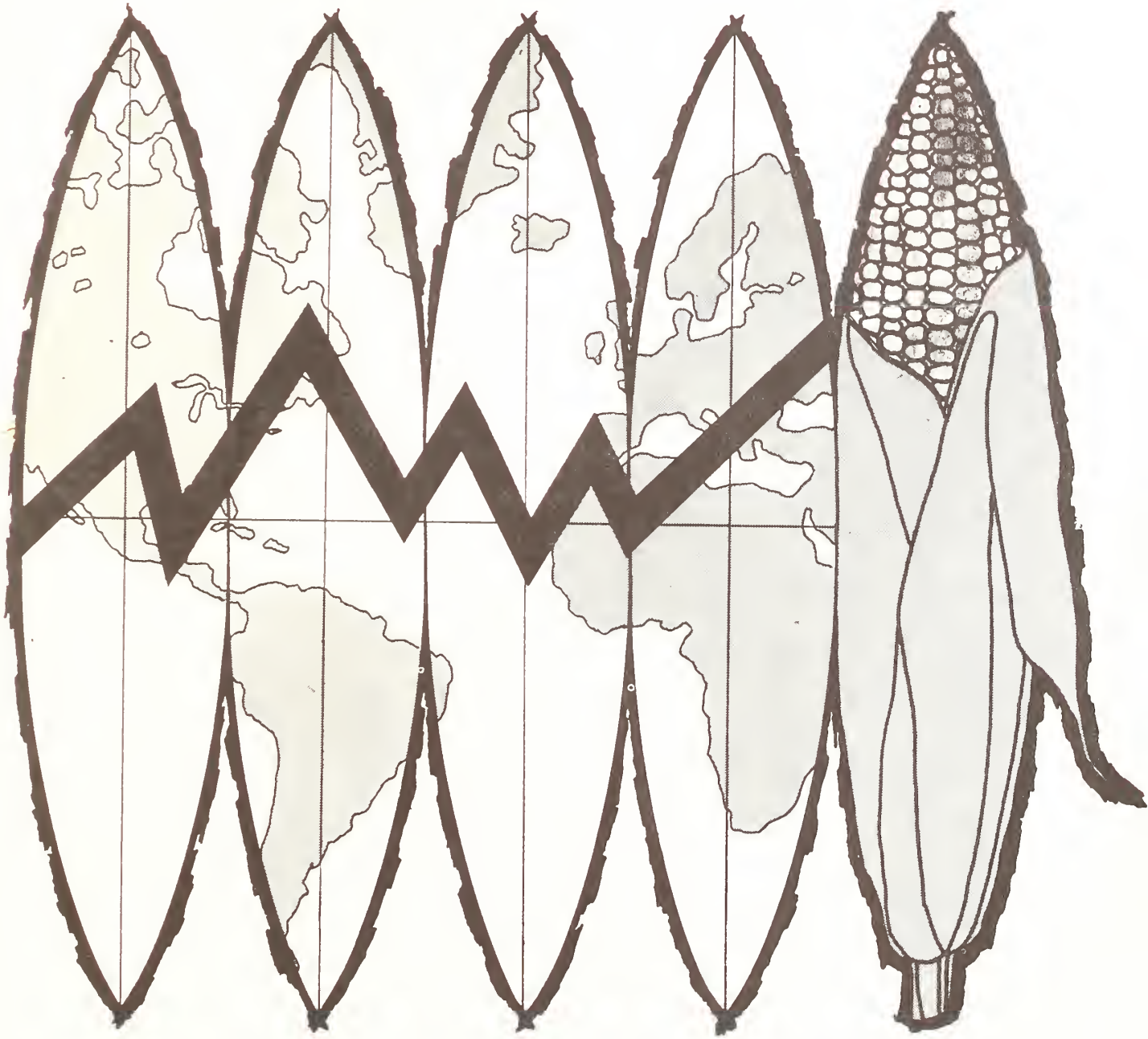
Historic, archived document

Do not assume content reflects current scientific knowledge, policies, or practices.

WORLD FOOD: PRICES & THE POOR



Tri-Agency Reading Room
Date
Room 505
500 12th St., SW
Washington, D. C. 20250

U.S. Department of Agriculture ● Economic Research Service ● ERS-568

WORLD FOOD: PRICES AND THE POOR

About 2,300 years ago, when asked for the proper time to eat, the Greek cynic Diogenes replied, "If a rich man, when you will; if a poor man, when you can."

These words are just as applicable now in describing the harsh realities of the world food market, where the poor are first to suffer in times of tight supplies.

In the view of one ERS official, the tumultuous events of the past couple of years drive home an important point: world food demand hinges not only on population growth, but also to a large extent on the desire of the developed countries to upgrade and protect their diets.

Their diets rely heavily on protein, particularly protein from livestock products. Since the billion people in the developed nations use practically as much cereal grain as feed for livestock as the 2 billion people in less developed countries use directly as food, such priorities obviously have worldwide implications.

Soviet grain purchases. The Soviet Union's decision to maintain the pace of its livestock production efforts in the face of a poor grain harvest in 1972 provides a striking example of how a major country's

[Based on "World Food: Prices and the Poor," by Lyle P. Schertz, Deputy Administrator, Economic Research Service, published in *Foreign Affairs*, April 1974.]

actions can affect everyone's food supply and prices.

Instead of waiting out the shortage, as they have done during previous poor harvests, the Soviets made huge grain purchases on the world market. They imported nearly one-fifth of the total U.S. wheat supply in the 1972–73 crop year, including production and beginning-of-the-year stocks.

U.S. supplies normally available to other countries dropped sharply, and the price of the remaining wheat was bid up to record levels.

Purchasing power game. At this point, the low purchasing power of the poor countries severely restricted their ability to compete for needed food imports. So long as overall cereal production is relatively responsive to needs, effects on the poor are minimal, especially over time. But when demand greatly exceeds supply, market impacts can be harsh—especially in those countries unable to insulate their poor from the market through aid programs such as food stamps.

For example, India's food grain harvest also slumped in 1972–73. In the tug-of-war between closing the gap with imports and saving foreign exchange, diets lost out and food prices were allowed to increase. In some areas food grain rations were cut in half in shops serving the lowest income Indians. Per capita consumption dropped to critical levels.

The widespread suffering in the drought-stricken African Sahel provide an even more tragic example of how low levels of wealth have not been able to command even a minimum diet, much less one similar to those here and in other developed nations.

Food gap continues. Consequently, while an optimistic outlook for the next several years calls for an upward trend in worldwide per capita food production, only modest nutritional improvements are forecast for the masses of people in the developing world.

Even if food production keeps pace with population growth, or gains on it, as projected, an overwhelming number of poor people in these countries will be inadequately fed for decades to come.

Looking to 1985, economists expect that income growth and national efforts to upgrade diets in lower income countries—particularly by using cereals in livestock production—will push demand beyond local crop increases.

By 1985, these countries' dependence on food imports is estimated to be about double the 1970 level.

During the same period, the U.S.'s role as the major food supplier in world markets is expected to expand substantially. The projections, then, add up to a heavy reliance on the U.S. as a source of food for the developing nations.

Unpredictable food markets. Just how the U.S. will approach this situation in coming years is still open to question. Not the least of the uncertainties overhanging future world food balances is the effect of weather variations and energy shortages and costs on food production and prices both here and elsewhere in the world.

Prospective import levels of the Soviet Union, China, Japan, and other major traders are unpredictable, yet their decisions will have a profound impact on the price and availability of food to the less developed countries.

And finally, changes which have recently occurred in the relationship between our domestic food markets and international markets add a new level of instability to the outlook for prices and the poor.

Grain price stabilizers. In the past years, the U.S. has generally been able to moderate price swings both at home and abroad by maintaining large stockpiles of grain.

When international shortages developed—through increased demand, reduced supplies, or both—the availability of U.S. stocks has dampened price fluctuations in the international market while at the same time discouraging domestic price increases.

When grain harvests were plentiful, the accumulation of stocks, along with export subsidies and withholding land from production, has prevented domestic prices from slumping sharply.

However, the past couple of years have seen this situation change completely. Bad weather cut world crop production in 1972, and coupled with successive devaluations of the dollar and continued expansion of demand for livestock products in Europe, Japan, and the Soviet Union, the shortfalls produced a demand for U.S. agricultural exports that virtually wiped out the government-held grain stocks.

Stock estimates for the end of this crop year reflect a sharp downturn from the peak year of 1961 when 38 million tons of wheat and 80 tons of feed grains were in storage.

Depleted government stocks. The 1974 outlook calls for 8 million tons of wheat and 14 million tons of feed grains. Very little will be owned by the government, in contrast to earlier periods when practically all stocks were government-owned.

Since the export surge of 1972–73, importers have generally continued to be free to buy any quantity of food from U.S. traders, and the usual shock absorbers of government stocks and export subsidies have not been around to hedge the impact on domestic and international prices.

Nor are they likely to be on the scene in the near future. Last year's farm legislation deliberately set price support loan rates much lower than prevailing market prices for key commodities—providing an in-

centive for farmers to market their goods.

The aim of the new law was to avoid the buildup of large government stocks and their high budgetary costs. Agricultural exports also remain a critical element in reversing the balance of payments deficits which plagued this country in the last decade.

In addition, expanding foreign demand has prompted policymakers to bring once withheld land back into production, thereby depleting another major U.S. food reserve—and price cushion.

Interfacing markets. In effect, then, the law allows U.S. farm prices to reflect international and domestic market forces. And the result of this direct link between U.S. and world markets will be unstable food prices in the foreseeable future.

As local weather conditions and energy resources change from year to year around the world, import needs and export supplies will also vary, and prices will act as the economic barometer of fluctuating supply and demand.

All nations face the problem of adapting to unstable food market prices, but here again, the developed countries have the edge over their less developed neighbors in insulating themselves from the adverse effects of sharp changes.

Market shock absorbers. Adjustment mechanisms such as variable import levies, export controls in the form of licensing, taxes, and subsidies, and the ability to expand agricultural production and carry larger food reserve stocks help to make internal prices less vulnerable to wide variations in international supplies and prices.

Some of these measures, such as reserve stocks, could benefit the world market as well, particularly if they were set up on an international basis.

Lower income countries, of course, would be greatly aided by measures that limited the fluctuation in food prices. But an active search for effective price stabilization techniques that coincide with national interests, especially in the U.S., may have to wait until the degree of instability is known and its effects are fully felt in home markets.

Economic trade-offs. For the U.S., undertaking a program such as renewed accumulation of grain stocks involves trade-offs among various factors.

So long as the balance of payments is of critical importance, the benefit from high export sales of agricultural products on the open market is bound to weigh heavily. On the other hand, farmers and traders may find that export averages would rise if supplies to foreign customers could be assured at reasonably stable prices from year to year.

Food price swings are already a major concern of consumers and labor organizations; farm interests, too, could opt for a dependable medium in lieu of yearly peaks and troughs.

But until the issue is resolved, there's still the question of whether the U.S. and other developed countries should take some other action to help poor nations obtain at least minimum diets.

U.S. food sharing programs. In the past, the U.S. has provided more than $22 billion in farm commodities to less developed countries through its P.L. 480 food aid programs. The bulk of the commodities moved under long-term dollar credit programs at an average annual cost of about $1 billion.

This system enabled recipient countries to sell the goods in their domestic markets, invest much of the revenue in economic development projects, and repay the U.S. for the products over time.

In addition, about one-fourth to one-third of the commodities were donated under emergency relief programs.

However, the quantities of cereals allocated to P.L. 480 in fiscal 1974 dipped to the lowest levels since the program started in 1954, even though the dollar cost was still about $1 billion.

The largest cutbacks came in the long-term dollar credit programs, and the current outlook for this type of aid indicates continued decreases. Reduced but significant amounts of food are still likely to be donated.

Commercial exports up. The major reason for the winding down of P.L. 480 is that strong demand, high prices, and negligible stocks make food sharing programs economically unattractive compared to commercial exports.

When the program was initiated several commodities were in chronic oversupply and large stocks were already being maintained. Shipping the excess to poor nations on concessional terms was consistent with farm interests at that time. Now it is not.

However, there are other ways in which rich nations can give a helping hand to the poor. A major thrust could be to provide technical expertise and training in agricultural research and development programs in the developing countries.

Food aid and economic assistance. Another possibility is to combine food aid with other economic assistance programs offered by international agencies such as the World Bank, the International Bank for Reconstruction and Development, and the Agency for International Development.

Food needs could then be considered in the context of other economic needs, and food aid could become a form of investment. As with P.L. 480, revenues from food sales could provide capital for a fertilizer plant, new irrigation facilities, or locally made machinery.

Better solutions to the food problem call for concerted action by many countries and international organizations, and certainly the U.S. can and should play a part.

But it is important that the inputs of the developed nations not be substitutes for the developing countries' own efforts. In the final analysis, improvement in the nutritional well-being of their people depends primarily on how they organize and use their resources.

(Reprinted from the August 1974 Farm Index magazine)